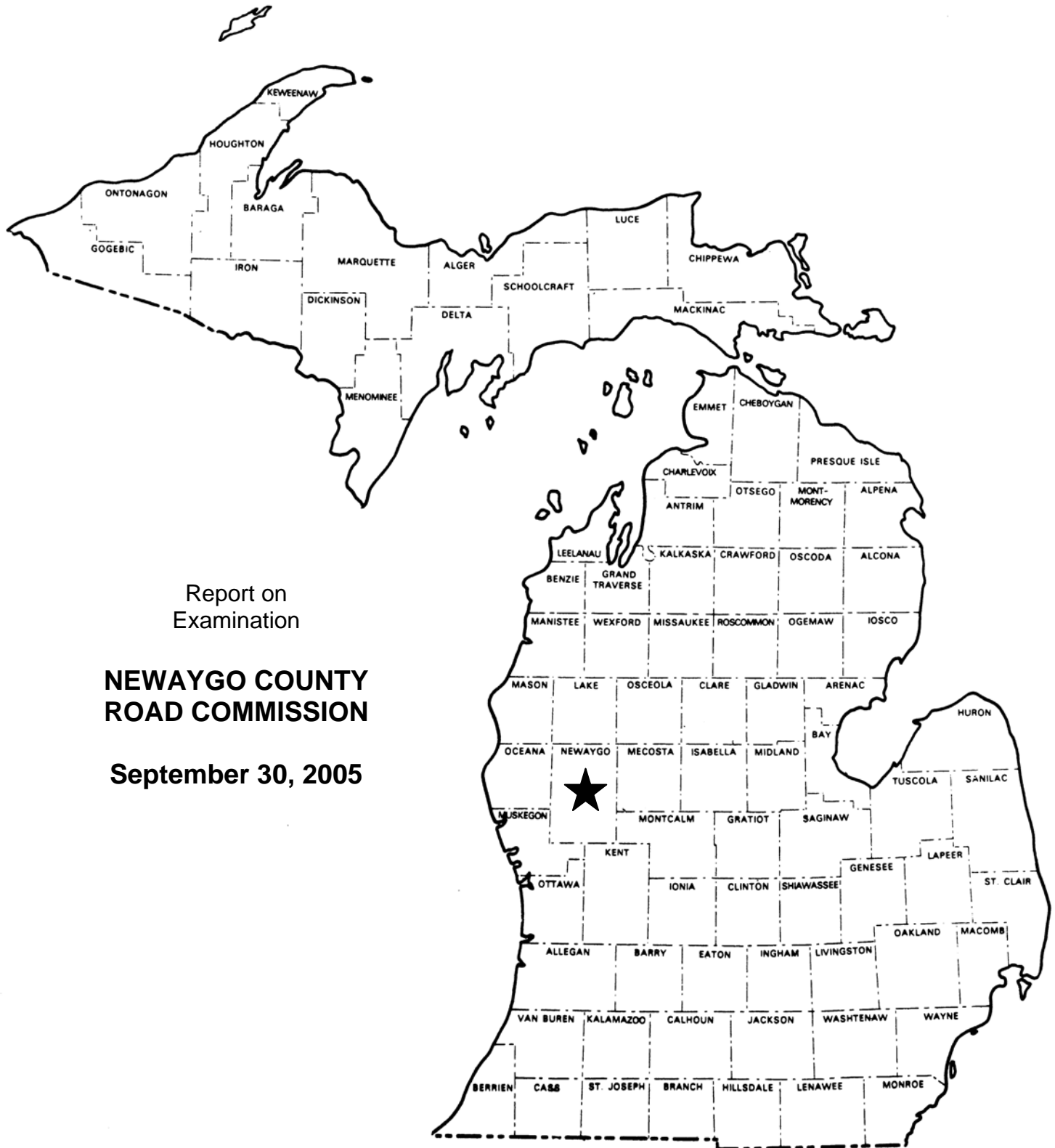


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**NEWAYGO COUNTY
ROAD COMMISSION**

September 30, 2005

NEWAYGO COUNTY
BOARD OF COUNTY ROAD COMMISSIONERS

William Gonyon
Chairman

Louis Meeuwenberg
Vice-Chairman

Dale E. Twing
Member

Kelly Smith
Manager

Kristin Luchies
Clerk

COUNTY POPULATION--2000
47,874

STATE EQUALIZED VALUE--2005
\$1,764,665,254



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

February 23, 2006

Board of County Road Commissioners
Newaygo County
935 One Mile Road
White Cloud, Michigan 49849

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Newaygo County Road Commission, a component unit of Newaygo County, Michigan, as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Newaygo County Road Commission as of September 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 9 and budget comparison information in Exhibits I and J are not part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board and generally accepted accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated February 23, 2006 on our consideration of the Newaygo County Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Newaygo County Road Commission, taken as a whole. The accompanying supplemental and related information in Exhibits K through M is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

NEWAYGO COUNTY ROAD COMMISSION

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NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Newaygo County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the fiscal year ended September 30, 2005. This discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission.

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

NEWAYGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases and decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

Report the Road Commission's Major Fund

The fund financial statements begin on page nine and provide detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental type fund.

- Governmental Fund--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 20.87% or \$2,518,387 from \$12,068,773 to \$14,587,160 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, were \$1,416,147 during 2005, a decrease of \$394,144 from the prior year. The change was primarily the result of an increase in equipment rental credit due to an increase in cost of day to day operations and the increase in cost of heavy maintenance projects and maintenance of roads during the year.

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specified purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net or related debt) are considered restricted.

NEWAYGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The investment in capital assets for 2005, net of related debt, was \$13,171,013, an increase of \$2,912,531 from the prior year. The increase was primarily the result of reporting infrastructure in the amount of \$3,954,285 for the year 2005.

Net assets as of the year ended September 30, 2005 are as follows:

	09/30/04 Governmental Activities	09/30/05 Governmental Activities	Variance	Percentage
Current and Other Assets	\$ 2,361,876	\$ 2,776,135	\$ 414,259	17.54%
Net Capital Assets	11,240,065	14,353,367	3,113,302	27.70%
Total Assets	13,601,941	17,129,502	3,527,561	25.93%
Current Liabilities	131,680	941,000	809,320	86.01%
Noncurrent Liabilities	1,401,488	1,601,342	199,854	12.48%
Total Liabilities	1,533,168	2,542,342	1,009,174	65.82%
Net Assets				
Invested in Capital Assets				
Net of Related Debt	10,258,482	13,171,013	2,912,531	28.39%
Restricted	1,810,291	1,416,147	(394,144)	-21.77%
Total Net Assets	\$ 12,068,773	\$ 14,587,160	\$ 2,518,387	20.87%

NEWAYGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>Percent</u>
Program Revenue				
Licenses and Permits	\$ 17,125	\$ 14,650	\$ (2,475)	-16.89%
Federal Grants	201,977	502,447	300,470	59.80%
State Grants	6,653,023	6,117,114	(535,909)	-8.76%
Contributions From Local Units	1,601,005	1,711,307	110,302	6.45%
Charges for Services	1,150,620	677,251	(473,369)	-69.90%
Investment Earnings	11,028	29,260	18,232	62.31%
Reimbursements	10	88,736	88,726	99.99%
General Revenue				
Insurance Recoveries	76,686	5,312	(71,374)	-1343.64%
Lawsuit Settlement	58,829		(58,829)	-100.00%
Gain on Equipment Disposal	14,586	512,259	497,673	97.15%
Total Revenue	<u>9,784,889</u>	<u>9,658,336</u>	<u>(126,553)</u>	<u>-1.31%</u>
Expenses				
Primary Road Maintenance	1,475,592	1,518,479	(42,887)	-2.91%
Local Road Maintenance	2,406,602	2,483,297	(76,695)	-3.19%
State Trunkline Maintenance	774,595	664,839	109,756	14.17%
Net Equipment Expense	(191,747)	32,061	(223,808)	116.72%
Net Administrative Expense	647,725	627,008	20,717	3.20%
Infrastructure Depreciation Expense	206,826	268,268	(61,442)	-29.71%
Compensated Absences	7,070	8,240	(1,170)	-16.55%
Interest Expense	58,597	38,762	19,835	33.85%
Total Expenses	<u>5,385,260</u>	<u>5,640,954</u>	<u>(255,694)</u>	<u>-4.75%</u>
Increase in Net Assets	<u>\$ 4,399,629</u>	<u>\$ 4,017,382</u>	<u>\$ 129,141</u>	<u>2.94%</u>

The net assets increased by \$4,017,382 for the year ended September 30, 2005 as a result of an amount recognized from private sources for the construction of roads for a new subdivision, as well as receiving Federal and State grants, where the related expenses were recorded as infrastructure capital assets. There was an increase in depreciation expense also.

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies, distributed to the county, which are earmarked by law for road and highway purposes.

A summary of changes in the Operating Fund is as follows:

	09/30/04 Operating Fund	09/30/05 Operating Fund	Favorable (Unfavorable) Variance	Variance Percent %
Revenue				
Permits	\$ 17,125	\$ 14,650	\$ (2,475)	-14.45%
Federal Grants	201,977	502,447	300,470	148.76%
State Grants	6,653,023	6,117,114	(535,909)	-8.06%
Contributions From Local Units	1,601,005	1,711,307	110,302	6.89%
Charges for Services	775,671	677,251	(98,420)	-12.69%
Interest and Rents	11,028	29,260	18,232	165.32%
Other Revenue	389,545	600,995	211,450	54.28%
Total Program Revenues	9,649,374	9,653,024	3,650	0.04%
Expenditures				
Public Works (Road)	9,399,142	9,279,969	119,173	1.27%
Net Capital Outlay	71,386	926,280	(854,894)	-1197.57%
Debt Service	148,353	760,081	(611,728)	-412.35%
Total Expenditures	9,618,881	10,966,330	(1,347,449)	-14.01%
Excess of Revenue Over (Under) Expenditures	30,493	(1,313,306)	(1,343,799)	-4406.91%
Other Financing Sources				
Insurance Recoveries	76,686	5,312	(71,374)	-93.07%
Lawsuit Settlements	58,829		(58,829)	-100.00%
Installment Purchase Proceeds		922,090	922,090	100.00%
Total Other Financing Sources	135,515	927,402	791,887	584.35%
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	166,008	(385,904)	(551,912)	-332.46%
Fund Balance--Beginning	1,887,806	2,053,814	166,008	8.79%
Fund Balance--Ending	\$ 2,053,814	\$ 1,667,910	\$ (385,904)	-18.79%

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended September 30, 2005, the fund balance of the General Operations Fund decreased by \$385,904 as compared to the prior year. Total operating revenues were \$9,653,024, an increase of \$3,650 as compared to last year. This change in revenues resulted primarily from an increase in Federal Grants, contributions from townships and installment purchase proceeds. These increases were offset by decreases in State Grants, permit revenues and a 5% decrease in Michigan Transportation Funds.

Total expenditures were \$10,966,330, an increase of \$1,347,449, in comparison to last year. This change in expenditures is primarily the result of an increase in the cost maintaining primary and local roads, high fuel costs, and increase in the number of Federal Aid Projects and other construction projects completed during 2005. We also had a higher equipment rental rate during 2005 resulting from the purchase and leasing of new equipment.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2005, the Road Commission had \$14,353,367 invested in capital assets as follows:

	Restated Balance 09/30/04	09/30/05	Total Percentage Change
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 72,445	\$ 117,955	38.58%
Infrastructure--Land and Improvements	<u>3,462,361</u>	<u>3,857,690</u>	<u>10.25%</u>
Subtotal	<u>3,534,806</u>	<u>3,975,645</u>	<u>11.09%</u>
Capital Assets Being Depreciated			
Buildings	1,037,520	1,144,275	9.33%
Road Equipment	5,366,466	5,554,842	3.39%
Shop Equipment	195,890	215,919	9.28%
Office Equipment	87,999	91,910	4.26%
Engineer's Equipment	100,285	100,285	0.00%
Administration Car	45,361	29,795	-52.24%
Infrastructure--Bridges	236,699	340,645	30.51%
Infrastructure--Roads	<u>5,010,826</u>	<u>8,465,936</u>	<u>40.81%</u>
Subtotal	<u>12,081,046</u>	<u>15,943,607</u>	<u>24.23%</u>
Total Capital Assets	15,615,852	19,919,252	21.60%
Total Accumulated Depreciation	<u>(5,874,882)</u>	<u>(5,565,885)</u>	<u>-5.55%</u>
Total Net Capital Assets	<u>\$ 9,740,970</u>	<u>\$ 14,353,367</u>	<u>32.13%</u>

NEWAYGO COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$3,954,285. The infrastructure recorded in 2004 was depreciated in 2005. The infrastructure is financed through Federal, State and local contributions. The Road Commission will retroactively report infrastructure assets (assets acquired after 1980) in a subsequent year as permitted by GASB No. 34.

This year's major capital asset additions included the following:

Reconstruction of Bridges (by Location)	\$ 103,946
Various Resurfacing Projects and Related Land/Right-of-Way	3,850,339
Road and Shop Equipment	1,267,641
Buildings	106,755
Land	45,510
Administrative, Office and Engineering Equipment	<u>4,061</u>
Total Additions	<u><u>\$ 5,378,252</u></u>

There were five new installment purchase agreements entered into during 2005; all other equipment was acquired with Road Commission funds.

During 2005, the Road Commission traded in and/or disposed of road and shop equipment with a purchase amount of \$1,074,952 and related depreciation of \$956,003.

Debt

At the year end, the Road Commission had \$1,182,354 in installment purchase agreements versus \$981,583 last period, an increase of \$200,771 or 20.45% as shown below:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>% of Variance</u>
Installment Purchase Agreements	<u>\$ 981,583</u>	<u>\$ 1,182,354</u>	<u>\$ (200,771)</u>	<u>-20.45%</u>
Total	<u><u>\$ 981,583</u></u>	<u><u>\$ 1,182,354</u></u>	<u><u>\$ (200,771)</u></u>	<u><u>-20.45%</u></u>

More detailed information about the Road Commission's long-term liabilities is presented in Note F to the financial statements.

During 2005, the Road Commission made the final balloon payments on three installment purchase agreements and took out new debt in the form of five new installment purchase agreements; also, in 2006, the Road Commission anticipates borrowing or financing of two more installment purchase agreements relating to the acquisition of capital assets.

NEWAYGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission's Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

The original revenue budget for 2005 was \$9,248,626 and was amended to \$10,571,417, which was \$9,009 less than the actual revenue received for the year. This was due to the decrease in Michigan Transportation Funds and less State Grants than anticipated.

The Road Commission's original expenditures were projected at \$9,248,626 and then were amended to \$11,190,912. Actual expenditures were \$10,966,330 resulting in actual expenditures being less than the budget by \$224,582. This was primarily due to the increase in cost of doing business and maintaining primary and local roads and revenues not increasing at the same rate. We also completed a large number of Federal Aid and other construction projects during the 2005 Fiscal Year. Our equipment and administrative expenses were also 20% more than anticipated.

Economic Factors and Next Year's Budget

The Board of County Road Commissioners considered many factors when setting the fiscal year 2005 budget. One of the factors is the economy and high fuel prices. The Road Commission derives approximately 60% of its revenue from the fuel tax collected in 2005. The recent economic downturn and high gas prices has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed. The Road Commission received approximately 18% of its revenues from township contributions during 2005. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. We are anticipating a 1% to 2% reduction in MTF, a reduction in State Buyout Funds, and a decrease in township contributions for the 2006 Fiscal year.

The above items were considered when adopting the budget for 2006. Amounts available for appropriation in the 2006 fiscal year budget are \$8,741,308.

The board realizes and the reader should also understand that there are not sufficient funds available to repair and/or rebuild every road in Newaygo County's transportation system. Therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Newaygo County.

NEWAYGO COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Road Commission for Newaygo County administrative offices at: 935 One Mile Road, White Cloud, Michigan 49349.

NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT A

ASSETS

Cash	\$ 1,003,546
Investments	3,906
Accounts Receivable	
Sundry Accounts	1,461
State--Trunkline Maintenance	48,678
Michigan Transportation Fund	878,214
Due on County Road Agreements	460,217
Due From Federal	41,028
Inventories	
Road Materials	169,089
Equipment Parts and Materials	169,996
Capital Assets (Net of Accumulated Depreciation)	<u>14,353,367</u>
Total Assets	<u>17,129,502</u>

LIABILITIES

Current Liabilities	
Accounts Payable	595,548
Due to State of Michigan	166,208
Accrued Liabilities	78,078
Deferred Revenue	
Forest Road Funds	101,166
Noncurrent Liabilities	
Advance From State	167,225
Installment Purchase Agreements Payable--Due Within One Year	351,039
Installment Purchase Agreements Payable--Due in More Than One Year	831,315
Vested Employee Benefits Payable	<u>251,763</u>
Total Liabilities	<u>2,542,342</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	13,171,013
Restricted for County Roads	<u>1,416,147</u>
Total Net Assets	<u>\$14,587,160</u>

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2005

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,518,479
Local Road Maintenance	2,483,297
State Trunkline Maintenance	664,839
Net Equipment Expense	32,061
Net Administrative Expense	627,008
Infrastructure Depreciation	268,268
Compensated Absences	8,240
Interest Expense	38,762
	<hr/>
Total Program Expenses	5,640,954
	<hr/>
Program Revenue	
Charges for Services	
License and Permits	14,650
Charges for Services	677,251
Reimbursements	88,736
Operating Grants and Contributions	
Michigan Transportation Funds	5,774,751
Investment Earnings	29,260
Capital Grants and Contributions	
Federal Grants	502,447
State Grants	342,363
Contributions From Local Units	1,711,307
	<hr/>
Total Program Revenue	9,140,765
	<hr/>
Net Program Revenue	3,499,811
	<hr/>
General Revenue	
Insurance Recoveries	5,312
Gain on Equipment Disposal	512,259
	<hr/>
Total General Revenues	517,571
	<hr/>
Change in Net Assets	4,017,382
	<hr/>
Net Assets	
Beginning of Year	12,068,773
	<hr/>
Restatement to Net Assets	(1,498,995)
	<hr/>
Restated Net Assets--Beginning of Year	10,569,778
	<hr/>
End of Year	\$14,587,160
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2005

EXHIBIT C

**GOVERNMENTAL
FUND TYPE**

ASSETS

Cash	\$ 1,003,546
Investments	3,906
Accounts Receivable--Sundry	1,461
Due From State	
Trunkline Maintenance	48,678
Michigan Transportation Fund	878,214
Due From Federal Government	41,028
Due on County Road Agreements	460,217
Inventories	
Road Materials	169,089
Equipment Parts and Materials	169,996
Total Assets	<u><u>\$ 2,776,135</u></u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 595,548
Due to State	166,208
Accrued Liabilities	78,078
Advances	
State Trunkline Equipment Purchase	111,356
State Trunkline Maintenance	55,869
Deferred Revenue--Forest Road Funds	101,166
Total Liabilities	<u>1,108,225</u>
Fund Equities	
Fund Balance	
Reserved for Inventory	339,085
Reserved for Long-Term Receivables	133,000
Unreserved and Undesignated	1,195,825
Total Fund Equities	<u>1,667,910</u>
Total Liabilities and Fund Equities	<u><u>\$ 2,776,135</u></u>

The Notes to Financial Statements are an integral part of this statement.

**NEWAYGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2005**

EXHIBIT D

Total Governmental Fund Balance	\$ 1,667,910
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,353,367
---	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are not reported in the funds.	<u>(1,434,117)</u>
--	--------------------

Net Assets of Governmental Activities	<u><u>\$14,587,160</u></u>
---------------------------------------	----------------------------

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended September 30, 2005

EXHIBIT E

	Operating Fund
Revenues	
Permits	\$ 14,650
Federal Grants	502,447
State Grants	6,117,114
Contributions From Local Units	1,711,307
Charges for Services	677,251
Interest and Rents	29,260
Other Revenue	600,995
	<hr/>
Total Revenues	9,653,024
	<hr/>
Expenditures	
Public Works	9,279,969
Capital Outlay	926,280
Debt Service	760,081
	<hr/>
Total Expenditures	10,966,330
	<hr/>
Excess of Revenues Over (Under) Expenditures	(1,313,306)
Other Financing Sources (Uses)	
Insurance Recoveries	5,312
Installment Purchase Proceeds	922,090
	<hr/>
Total Other Financing Sources (Uses)	927,402
	<hr/>
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(385,904)
Fund Balance--October 1, 2004	2,053,814
	<hr/>
Fund Balance--September 30, 2005	\$ 1,667,910
	<hr/> <hr/>

The Notes to Financial Statements are an integral part of this statement.

**NEWAYGO COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT
OF ACTIVITIES
For the Year Ended September 30, 2005**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ (385,904)
--	--------------

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	4,612,297
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	
Lease proceeds provide current financial resources to governmental funds, but entering into lease agreements increases long-term liabilities in the Statement of Net Assets. Repayment of notes/leases payable is an expenditure in governmental funds, but reduces the long-term liabilities in the Statement of Net Assets.	(200,771)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	(8,240)
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$ 4,017,382</u></u>

The Notes to Financial Statements are an integral part of this statement.

**NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
FIDUCIARY FUND
September 30, 2005**

EXHIBIT G

	<u>Pension Trust</u>
<u>ASSETS</u>	
Investments at Fair Market Value	
US Government, Agencies and Corporate Securities	\$ 2,318,253
Money Market Funds	329,480
Common Stocks	2,410,970
Accrued Income	<u>22,995</u>
Total Assets	<u>5,081,698</u>
<u>LIABILITIES</u>	
Total Liabilities	<u>-</u>
<u>NET ASSETS</u>	
Held in Trust for Pension Benefits	<u><u>\$ 5,081,698</u></u>

The Notes to Financial Statements are an integral part of this statement.

**NEWAYGO COUNTY ROAD COMMISSION
STATEMENT OF CHANGES IN NET ASSETS
FIDUCIARY FUNDS
For the Year Ended September 30, 2005**

EXHIBIT H

	<u>Pension Trust</u>
Additions	
Contributions	
Employer	<u>\$ 257,200</u>
Total Contributions	<u>257,200</u>
Investment Income	
Interest and Dividends	160,955
Realized Gain (Loss) From Sale of Investments	261,158
Net Appreciation (Depreciation) in Fair Value of Investments	<u>99,522</u>
Net Investment Income (Loss)	<u>521,635</u>
Total Additions	<u>778,835</u>
Deductions	
Benefit Payments	289,814
Administrative and Other Expenses	<u>39,446</u>
Total Deductions	<u>329,260</u>
Change in Net Assets	449,575
Net Assets--October 1, 2004	<u>4,632,123</u>
Net Assets--September 30, 2005	<u><u>\$ 5,081,698</u></u>

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Newaygo County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Newaygo County Road Commission.

NOTE A--REPORTING ENTITY

The Newaygo County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an appointed 3 member board of county road commissioners. The Road Commission may not issue debt without the approval of the county board of commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the county, as approved by the county electors. The taxes would be included as part of the county's total tax levy as well as reported in the County Road Fund.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Newaygo County Road Commission, a component unit of Newaygo County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund money distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Newaygo County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expense are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; and (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items), are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Newaygo County Road Commission as assets with an initial individual cost of more \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The Newaygo County Road Commission has capitalized the current year's infrastructure, as required by GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The Road Commission will retroactively capitalize the major infrastructure assets on or before September 30, 2008, as permitted by GASB Statement No. 34.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (manager) prepares and submits a proposed operating budget to the board for its review and consideration. The board of county road commissioners conducts a public budget hearing and, subsequently, adopts the operating budget. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

The Road Commission has not complied with certain provisions of Public Act 2 of 1968, as amended. The following activities exceeded the final amended budget:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road--Preservation/Structural Improvements	\$ 1,576,746	\$ 1,669,328	\$ (92,582)
Primary Road--Maintenance	1,344,962	1,518,479	(173,517)
Local Road Maintenance	2,424,211	2,483,297	(59,086)
Primary Structure--Preservation/Structural Improvements	37,079	58,061	(20,982)
Local Structure--Preservation/Structural Improvements		45,885	(45,885)
State Trunkline Nonmaintenance		34,751	(34,751)
Principal	128,902	721,319	(592,417)
Interest	6179	38762	(32,583)

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH DEPOSITS AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are made in banks in the name of the Newaygo County Treasurer. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the county treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase; and obligations of the State of Michigan or its political subdivisions which are rated investment grade. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated four banks for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Operating Fund</u>	<u>Pension Trust</u>	<u>Total</u>
Cash	\$ 1,003,546		\$1,003,546
Investments	<u>3,906</u>	<u>\$ 5,081,698</u>	<u>5,085,604</u>
Total	<u>\$ 1,007,452</u>	<u>\$ 5,081,698</u>	<u>\$6,089,150</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 1,003,446
Investments in Money Market, Common Stock, and Government Operating Money Market	5,085,604
Petty Cash and Cash on Hand	<u>100</u>
Total	<u>\$ 6,089,150</u>

The bank balance of the primary government's deposits is \$1,021,418, of which \$100,000 is covered by Federal depository insurance.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH DEPOSITS AND INVESTMENTS (Continued)

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that, changes in market interest rates, will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

As of September 30, 2005, the Road Commission had the following investments:

	Reported Amount (Fair Value)
Investments	
US Government, Agencies and Corporate Securities	\$2,318,253
Money Market Funds	333,386
Common Stocks	2,410,970
Accrued Income	<u>22,995</u>
Total Primary Government	<u><u>\$5,085,604</u></u>

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH DEPOSITS AND INVESTMENTS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--CAPITAL ASSETS

The following is a summary of the changes in capital assets:

	Restated Account Balances 09/30/04	Additions	Deductions	Account Balances 09/30/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 72,445	\$ 45,510		\$ 117,955
Infrastructure Land Improvements	3,462,361	395,329		3,857,690
Subtotal	3,534,806	440,839	\$ -	3,975,645
Capital Assets Being Depreciated				
Buildings	1,037,520	106,755		1,144,275
Road Equipment	5,366,466	1,247,612	1,059,236	5,554,842
Shop Equipment	195,890	20,029		215,919
Office Equipment	87,999	4,061	150	91,910
Engineers' Equipment	100,285			100,285
Administration Car	45,361		15,566	29,795
Infrastructure--Bridges	236,699	103,946		340,645
Infrastructure--Roads	5,010,926	3,455,010		8,465,936
Total	12,081,146	4,937,413	1,074,952	15,943,607
Less Accumulated Depreciation				
Buildings	774,554	20,425		794,979
Road Equipment	4,625,432	325,095	940,401	4,010,126
Shop Equipment	151,487	18,659		170,146
Office Equipment	59,406	8,150	36	67,520
Engineers' Equipment	72,961	3,925		76,886
Administration Car	34,436	483	15,566	19,353
Infrastructure--Bridges	3,900	16,394		20,294
Infrastructure--Roads	152,706	251,875		404,581
Total	5,874,882	645,006	956,003	5,563,885
Net Capital Assets Being Depreciated	6,206,264	5,378,252	763,955	10,379,722
Total Net Capital Assets	\$ 9,741,070	\$ 5,819,091	\$ 763,955	\$ 14,355,367

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Restatement to September 30, 2004 net capital assets are as follows:

	Account Balances 09/30/04	Notes	Adjustments to Beginning Balance	Restated Balances at 09/30/04
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 72,445			\$ 72,445
Infrastructure Land Improvements	3,462,361			3,462,361
Subtotal	3,534,806		\$ -	3,534,806
Capital Assets Being Depreciated				
Buildings	1,037,520			1,037,520
Road Equipment	5,374,356	1	(7,890)	5,366,466
Shop Equipment	195,890			195,890
Office Equipment	87,999			87,999
Engineers' Equipment	100,285			100,285
Administration Car	45,361			45,361
Infrastructure--Bridges	372,237	2	(135,538)	236,699
Infrastructure--Roads	5,757,438	3	(746,512)	5,010,926
Total	12,971,086		(889,940)	12,081,146
Less Accumulated Depreciation				
Buildings	699,954	1	74,600	774,554
Road Equipment	4,045,979	1	579,453	4,625,432
Shop Equipment	151,376	1	111	151,487
Office Equipment	52,642	1	6,764	59,406
Engineers' Equipment	65,498	1	7,463	72,961
Administration Car	43,552	1	(9,116)	34,436
Infrastructure--Bridges	3,900			3,900
Infrastructure--Roads	202,926	3	(50,220)	152,706
Total	5,265,827		609,055	5,874,882
Net Capital Assets Being Depreciated	7,705,259		(1,498,995)	6,206,264
Total Net Capital Assets	<u>\$11,240,065</u>		<u>\$ (1,498,995)</u>	<u>\$ 9,741,070</u>

Notes

- 1) Adjustment of Road Equipment and Accumulated Depreciation Accounts to agree with Capital Asset Subsidiary Records
- 2) Remove Structures Less than 20' Span From List
Less: Infrastructure--Bridges
- 3) Remove Seal Coat Road From List Due to Change in Public Act 51 Definitions

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$325,095
Indirect Equipment	18,659
Net Administrative Expenses	
Administrative	31,058
Engineering	3,925
Infrastructure Depreciation Expense	<u>268,269</u>
Total Depreciation Expense	<u><u>\$647,006</u></u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	Balance 09/30/04	Additions (Reductions)	Balance 09/30/05	Due Within One Year
2 Caterpillar Motor Grades Model 140H and 1 Caterpillar Motor Grader Model 143H \$527,300 Capital Lease Dated February 20, 2000	\$ 350,711	\$(350,711)	-	-
Caterpillar Motor Grader Model 143H \$212,100 Capital Lease Dated February 24, 2000	132,701	(132,701)	-	-
Caterpillar Wheel Loader Model 950G \$152,100 Capital Lease Dated February 24, 2000	109,004	(109,004)	-	-
Caterpillar Wheel Loader Model 950G \$152,300 Capital Lease Dated August 10, 2000	109,005		\$ 109,005	\$ 109,005
Caterpillar Wheel Loader Model 966G \$225,300 Capital Lease Dated September 28, 2000	150,071		150,071	150,071
Komatsu Excavator Model PC270LC-6L \$171,800 Capital Lease Dated November 13, 2001	130,091	(12,397)	117,694	12,986
Caterpillar Financial Services Lease for 1 Motor Grader 143H, Serial #APN00674		208,398 (25,906)	182,492	18,058
Caterpillar Financial Services Lease for 1 Motor Grader 143H, Serial #APN00685		208,397 (25,905)	182,492	18,058
Caterpillar Financial Services Lease for 1 Motor Grader 143H, Serial #APN00672		179,398 (21,807)	157,591	15,030
Caterpillar Financial Services Lease for 1 Motor Grader 143H, Serial #APN00687		179,397 (21,806)	157,591	15,030
Leasing 2, Inc. Installment Purchase Agreement for 1 Volvo L110E Wheel Loader		146,500 (21,081)	125,419	12,801
Vested Employee Benefits Vacation and Sick Leave	243,523	8,240	251,763	
Totals	<u>\$ 1,225,106</u>	<u>\$ 209,012</u>	<u>\$ 1,434,118</u>	<u>\$ 351,039</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

A Caterpillar Wheel Loader Model 950G was purchased in September 2000 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$152,300, with 5 annual payments of \$14,274.67 and a \$115,000 balloon payment due in August 2005 at an implied interest rate of 5.50%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/05</u>	<u>Interest Payable if Held to Maturity</u>
08/10/00	\$152,300	5.50%	2006	<u>\$109,005</u>	<u>\$ 5,995</u>
Total				<u><u>\$109,005</u></u>	<u><u>\$ 5,995</u></u>

A Caterpillar Wheel Loader Model 966G was purchased in September 2000 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$225,300, with 5 annual payments of \$23,764.49 and a \$159,000 balloon payment due in October 2005 at an implied interest rate of 5.95%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/05</u>	<u>Interest Payable if Held to Maturity</u>
09/28/00	\$225,300	5.95%	2006	<u>\$ 150,071</u>	<u>\$ 8,929</u>
Total				<u><u>\$ 150,071</u></u>	<u><u>\$ 8,929</u></u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--GENERAL LONG-TERM DEBT (Continued)

A Komatsu Excavator Model PC270LC-6L was purchased in November 2001 under a lease purchase agreement through Komatsu Financial Services Corporation. The original purchase price was \$171,800, with 5 annual payments of \$18,567.39 and a \$110,000 balloon payment due in October 2006 at an implied interest rate of 4.75%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/05</u>	<u>Interest Payable if Held to Maturity</u>
11/13/01	\$171,800	4.75%	2005	\$ 12,986	\$ 5,590
			2006	<u>104,708</u>	<u>5,293</u>
Total				<u>\$117,694</u>	<u>\$ 10,883</u>

Caterpillar Motor Grader 143h Model #APN00674 was purchased in July 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$208,398, with 5 annual payments of \$25,905.42 and a \$110,000 balloon payment due in July 2010 at an implied interest rate of 4.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/05</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$208,398	4.30%	2006	\$ 18,058	\$ 7,847
			2007	18,835	7,070
			2008	19,645	6,260
			2009	20,489	5,416
			2010	<u>105,465</u>	<u>4,535</u>
Total				<u>\$182,492</u>	<u>\$ 31,128</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Caterpillar Motor Grader 143h Model #APN00685 was purchased in July 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$208,397, with 5 annual payments of \$25,905.42 and a \$110,000 balloon payment due in July 2010 at an implied interest rate of 4.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/05</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$ 208,397	4.30%	2006	\$ 18,058	\$ 7,847
			2007	18,835	7,070
			2008	19,645	6,260
			2009	20,489	5,416
			2010	<u>105,465</u>	<u>4,535</u>
Total				<u>\$182,492</u>	<u>\$ 31,128</u>

Caterpillar Motor Grader 143h Model #APN00672 was purchased in July 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$179,398, with 5 annual payments of \$21,806.53 and a \$97,500 balloon payment due in July 2010 at an implied interest rate of 4.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/05</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$179,398	4.30%	2006	\$ 15,030	\$ 6,777
			2007	15,676	6,131
			2008	16,351	5,456
			2009	17,054	4,753
			2010	<u>93,480</u>	<u>4,020</u>
Total				<u>\$157,591</u>	<u>\$ 27,137</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Caterpillar Motor Grader 143h Model #APN00687 was purchased in July 2005 under a lease purchase agreement through Caterpillar Financial Services Corporation. The original purchase price was \$179,397, with 5 annual payments of \$21,806.53 and a \$97,500 balloon payment due in July 2010 at an implied interest rate of 4.3%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/05</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$179,397	4.30%	2006	\$ 15,030	\$ 6,777
			2007	15,676	6,131
			2008	16,351	5,456
			2009	17,054	4,753
			2010	<u>93,480</u>	<u>4,020</u>
Total				<u>\$157,591</u>	<u>\$ 27,137</u>

Caterpillar Motor Grader 143h Model #APN00672 was purchased in March 2005 under a lease purchase agreement through Leasing 2 Financial Services Corporation. The original purchase price was \$146,500, with 4 annual payments of \$21,081.13 and a \$90,000 balloon payment due in July 2009 at an implied interest rate of 4.66%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 09/30/05</u>	<u>Interest Payable if Held to Maturity</u>
07/05/05	\$146,500	4.66%	2006	\$ 12,801	\$ 8,280
			2007	13,645	7,436
			2008	14,547	6,534
			2009	<u>84,426</u>	<u>5,574</u>
Total				<u>\$125,419</u>	<u>\$ 27,824</u>

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Vested Employee Benefits

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employee on his or her anniversary date. Union employees must generally use vacation leave within 1 year after being earned. If a union employee has less than 1 day unused, he/she will be paid for that time. A union employee, however, may request carryover of 10 unused vacation days into the next year under special circumstances. Foremen and management employees may carry forward 50% of vacation leave earned to the following year but may not extend it beyond 1 year. Upon termination of employment, vacation leave is payable at 100%. The liability recorded in long-term debt for vacation earned, but not used as of September 30, 2005, totaled \$91,482 based on 100% of the vacation leave balances.

Sick leave is accumulated at the rate of 1 day per month by union employees and ½ day per month for management and administrative employees not to exceed 1200 hours or 150 days.

Sick leave is payable at 50% to the maximum of 75 days when an employee retires or dies. The sick leave benefits recorded in long-term debt consists of 50% of accumulated sick leave, which amounted to \$160,281.

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

Plan Description

The Newaygo County Road Commission pension plan is a single employer-defined benefit plan administered through Fifth Third Bank. The information disclosed as of September 30, 2005, is based on information provided by Fifth Third Bank. The Fifth Third Bank plan had 46 active participants and 31 retirees as of January 1, 2005, the most recent period for which actuarial data was available. The plan administrator, Fifth Third Bank, did not issue a separate report for the year 2005.

The system provides retirement, disability and death benefits to plan members and their beneficiaries, in accordance with the Road Commission labor agreements and personnel policies.

Funding Policy

The board of county road commissioners had established a payment of \$20,500 per month to fund the plan. On July 25, 2005, the board approved an increase to the monthly payment to \$25,000. During the January 28, 1998 meeting, the board authorized the investment of future contributions in a stock fund. Fifth Third Bank separately identifies and reports on the contributions and earnings in a "Defined Benefit Pension Plan Account." During 2005, contributions were invested in money market investments, stocks, and bonds.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Contributions

Employees are not required to or able to contribute any funds after June 4, 1991; except, effective February 27, 2002, management staff employees may purchase up to five years of service under the plan for covered military service. Prior employee accumulations receive 3% interest. The Road Commission usually makes contributions in accordance with the minimum recommended employer contribution required by the actuary plan. During the plan year ended December 31, 2004, the Road Commission contributed \$271,200 and the required recommended contribution was \$244,140, the minimum recommended contribution was not available.

Summary of Significant Accounting Policies and Plan Asset Matters

The assets of the pension plan consist of money market investments, stocks, and bonds purchased under the control of Fifth Third Bank. The company currently provides monthly "statement highlights" providing a summary of balances, which provides the income and expense data accounting for the monthly changes in the Group Annuity Contract value for the General Account only. These statements provided for the audit report are effective through December 31 each year.

Schedule of Funding Progress (2)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Percent Funded</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
01/01/05	\$4,873,724	\$4,318,871	113%	\$554,853	\$1,974,310	-28%
01/01/04	4,519,745	3,813,034	119%	706,711	1,939,501	-36%
01/01/03*	3,935,638	3,667,795	107%	267,843	1,864,260	-14%
05/01/02	4,135,792	3,519,773	118%	616,019	1,663,528	-37%
05/01/01	4,165,895	3,354,031	124%	811,864	1,631,206	-50%
05/01/00	5,106,455	4,514,850	113%	591,605	1,473,654	-40%
05/01/99	4,239,124	4,638,018	91%	(398,894)	1,309,680	30%
05/01/98	3,973,188	4,200,658	95%	(227,470)	1,240,481	18%
05/01/97	3,766,554	4,365,812	86%	(599,258)	1,069,693	56%
05/01/96	3,627,282	4,570,908	79%	(943,626)	1,115,510	85%
05/01/95	3,672,864	4,473,631	82%	(800,767)	1,143,591	70%

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Schedule of Employer Contributions

<u>Year Ending</u>	<u>Annual Required Contribution</u>	<u>Actual Contribution</u>	<u>Percentage Contributed</u>
12/31/04	\$ 244,140	\$ 271,200	111%
12/31/03	267,087	258,342	97%
12/31/02 *	134,405	145,363	108%
04/30/02	190,618	274,160	144%
04/30/01	183,205	184,000	100%
04/30/00	235,781	276,000	117%
04/30/99	223,655	276,000	123%
04/30/98	255,557	276,000	108%
04/30/97	268,070	241,000	90%

*8 month plan year ending December 31, 2002

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of January 1, 2005, the latest actuarial valuation, follows:

Actuarial Cost Method	Frozen Initial Liability
Amortization Method	Level Percent, Closed
Remaining Amortization Period	(1)
Asset Valuation Method	(1)
Actuarial Assumptions	
Investment Rate of Return	8%
Projected Salary Increases*	5%
*Includes Inflation at	4%
Cost of Living Adjustments	None

(1) Information not provided in actuarial report.

(2) GASB Statements No. 25 and No. 27 require 10 years of information. Information is not available to complete table per GASB Statement No. 25 and GASB Statement No. 27.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--DEFERRED COMPENSATION PLAN

The Newaygo County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plans are held in annuity contracts described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of the Section 457 plans and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

NOTE I--POST-EMPLOYMENT BENEFITS

Newaygo County Road Commission provides post-employment health care benefits, in accordance with the labor contract and personnel policy, to all employees who retire from the Road Commission. The Road Commission pays all costs for health insurance premiums, including spouse, for management employees who retire at age 55 with 30 years service, but not later than 62 and continuing until the retiree reaches age 65, or from early optional retirement date of age 55 with 10 years or more of service and continuing until the retiree and his spouse reach age 65. After age 65, retirees must reimburse the employer for the cost of insurance. The Road Commission continues to pay the premiums for union employees, including spouse, who retire at age 62 with 10 years service, or from early optional retirement date of age 55 with 10 years or more of service, and continuing until the retiree and their spouse reach age 65. Effective June 1, 1999, the Road Commission shall pay for the Medicare Supplemental available to continue coverage at the rate of 25% of the premium for Medicare Supplemental Coverage for union employees. Prior to June 1, 1999, after age 65, retirees must reimburse the employer for the cost of insurance.

Employees who retire before the respective age limits do not qualify for health insurance even though they may have the required years of service.

Currently, 8 retirees met those eligibility requirements. Expenditures for post-employment health care benefits are recognized when insurance premiums are paid. Net premiums paid by the Road Commission for retirees during 2005 totaled \$46,707. There were no retirees that qualified for the Medicare Supplemental Coverage.

NEWAYGO COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board. Commercial insurance was purchased for health care benefits.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At September 30, 2005, there were no claims which exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

NOTE K--FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that road commissions report all Federal and State grants pertaining to their county. During the fiscal year ended September 30, 2005, the Federal Aid received and expended by the Road Commission was \$375,000 for contracted projects and \$127,447 for negotiated projects. Contracted projects are defined as projects performed by private contractors paid for and administrated by MDOT. The contracted Federal projects are not subject to single audit requirements by the road commissions, as they are included in MDOT's single audit. Negotiated projects are defined as projects performed by Road Commission employees or private contractors paid for and administered by the Road Commission.

NOTE L--STATE TRUNKLINE

The \$7,416 difference between the State Trunkline maintenance revenues of \$637,504 and expenditures of \$630,088 is due to the Michigan Department of Transportation (MDOT) Trunkline maintenance audit report #2003-216 which resulted in a refund to the Road Commission of \$7,468 and unreported expenditures of \$52. The refund was appropriately recorded to the State Trunkline maintenance revenues.

NEWAYGO COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF REVENUES--BUDGET AND ACTUAL
For the Year Ended September 30, 2005

EXHIBIT I

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Weight Permits	-	14,650	\$ 14,650	-
Federal Grants				
Surface Transportation Program	\$ 375,000	\$ 429,921	418,621	\$ (11,300)
Critical Bridge	475,000	-	-	-
US Forest Service Projects	81,459	127,447	83,826	(43,621)
State Grants				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	2,701,717	3,200,316	3,200,316	-
Local Road	2,488,283	2,392,831	2,392,831	-
Primary Urban Road		90,370	90,370	-
Local Urban Road		44,224	44,224	-
Snow Removal	30,000	37,010	37,010	-
Economic Development Funds				
Rural Primary (D)	50,000	-	-	-
Forest Funds (E)	101,167	101,167	-	(101,167)
STP Buy Out	375,000	322,908	322,908	-
Other State Grants			19,455	19,455
Contributions--Local Units				
Townships	1,590,000	2,226,666	1,708,933	(517,733)
County	11,000	17,605	2,374	(15,231)
Charges for Services				
State Trunkline Maintenance	600,000	774,080	637,504	(136,576)
State Trunkline Nonmaintenance	25,000	19,455	34,771	15,316
Salvage Sales	-	3,335	3,723	388
Road Abandonment Fees	-	-	500	500
Plan Review Permit Fee			753	753
Interest and Rents				
Interest Earned	-	-	29,260	29,260
Other Revenue				
Contributions From Private Sources	235,000	-	-	-
Refunds	100,000	759,432	88,736	(670,696)
Gain on Equipment Disposal			512,259	512,259
Total Revenue	9,248,626	10,571,417	9,653,024	(918,393)
Other Financing Sources				
Insurance Recoveries		-	5,312	5,312
Installment Purchase Proceeds		-	922,090	922,090
Total Revenue and Other Financing Sources	9,248,626	10,571,417	<u>\$ 10,580,426</u>	<u>\$ 9,009</u>
Fund Balance--October 1, 2004	-	619,495		
Total Budget	<u>\$ 9,248,626</u>	<u>\$ 11,190,912</u>		

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
For the Year Ended September 30, 2005

EXHIBIT J

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 1,527,500	\$ 1,576,746	\$ 1,669,328	\$ (92,582)
Maintenance	1,102,500	1,344,962	1,518,479	(173,517)
Local Road				
Preservation/Structural Improvements	2,087,000	2,200,257	2,181,011	19,246
Maintenance	1,794,960	2,424,211	2,483,297	(59,086)
Primary Road Structure				
Preservation/Structural Improvements	-	37,079	58,061	(20,982)
Maintenance	5,000	-	-	-
Local Road Structure				
Preservation/Structural Improvements	-	-	45,885	(45,885)
Maintenance	1,000	-	-	-
State Trunkline Maintenance	600,000	761,509	630,088	131,421
State Trunkline Nonmaintenance	-	-	34,751	(34,751)
Equipment Expense--Net	800,000	936,597		
Direct			\$ 836,423	
Indirect			375,217	
Operating			426,949	
Less: Equipment Rentals			<u>(1,606,528)</u>	904,536
Administrative Expense--Net	672,000	694,668		
Administrative Expense			685,821	
Less: Handling Charges			(1,312)	
Purchase Discounts			(61)	
Overhead--Other			(2,414)	
Overhead--State			<u>(55,026)</u>	67,660
Capital Outlay--Net	560,000	1,079,802		
Capital Outlay			1,423,967	
Less: Depreciation Credits			(378,738)	
Equipment Retirements			<u>(118,949)</u>	153,522
Debt Service				
Principal Payments	12,397	128,902	721,319	(592,417)
Interest Expense	86,269	6,179	38,762	(32,583)
Total Expenditures	9,248,626	11,190,912	<u>\$ 10,966,330</u>	<u>\$ 224,582</u>
Fund Balance--September 30, 2005	-	-		
Total Budget	<u>\$ 9,248,626</u>	<u>\$ 11,190,912</u>		

The Notes to Financial Statements are an integral part of this statement.

NEWAYGO COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2005

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$4,171,364	\$4,150,266	\$1,331,394	\$9,653,024
Total Expenditures	3,509,831	5,101,548	2,354,951	10,966,330
Excess of Revenues Over (Under) Expenditures	661,533	(951,282)	(1,023,557)	(1,313,306)
Other Financing Sources (Uses)				
Insurance Recoveries		5,312		5,312
Installment Purchase Proceeds			922,090	922,090
Optional Transfers	(945,970)	945,970		-
Total Other Financing Sources (Uses)	(945,970)	951,282	922,090	927,402
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(284,437)	-	(101,467)	(385,904)
Fund Balance--October 1, 2004	883,754	-	1,170,060	2,053,814
Fund Balance--September 30, 2005	\$599,317	\$-	\$1,068,593	\$1,667,910

NEWAYGO COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER
FINANCING SOURCES
For the Year Ended September 30, 2005

EXHIBIT L

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Weight Permits			\$ 14,650	\$ 14,650
Federal Grants				
Surface Transportation Program	\$ 418,621			418,621
US Forest Service Projects	83,826			83,826
State Grants				
Michigan Transportation Fund				
Engineering	5,722	\$ 4,278		10,000
Allocation	3,200,316	2,392,831		5,593,147
Urban	90,370	44,224		134,594
Snow Removal	37,010			37,010
Economic Development Fund				
STP Buy Out	322,908			322,908
Other State Grants			19,455	19,455
Contributions--Local Units				
Townships		1,708,933		1,708,933
County			2,374	2,374
Charges for Services				
State Trunkline Maintenance			637,504	637,504
State Trunkline Nonmaintenance			34,771	34,771
Salvage Sales			3,723	3,723
Road Abandonment Fees			500	500
Plan Review Permit Fee			753	753
Interest and Rents				
Interest Earned	12,591		16,669	29,260
Other Revenue				
Refunds			88,736	88,736
Gain on Equipment Disposal			512,259	512,259
Total Revenue	4,171,364	4,150,266	1,331,394	9,653,024
Other Financing Sources				
Insurance Recoveries		5,312		5,312
Installment Purchase Proceeds			922,090	922,090
Total Revenues and Other Financing Sources	\$ 4,171,364	\$ 4,155,578	\$ 2,253,484	\$ 10,580,426

NEWAYGO COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2005

EXHIBIT M

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 1,669,328			\$ 1,669,328
Maintenance	1,518,479			1,518,479
Local Road				
Preservation/Structural Improvements		\$ 2,181,011		2,181,011
Maintenance		2,483,297		2,483,297
Primary Road Structures				
Preservation/Structural Improvements	58,061			58,061
Local Road Structures				
Preservation/Structural Improvements		45,885		45,885
State Trunkline Maintenance			\$ 630,088	630,088
State Trunkline Nonmaintenance			34,751	34,751
Equipment Expense--Net (Per Exhibit J)	8,160	20,150	3,751	32,061
Administrative Expense--Net (Per Exhibit J)	255,803	371,205		627,008
Capital Outlay--Net (Per Exhibit J)			926,280	926,280
Debt Service				
Principal Payments			721,319	721,319
Interest Payments			38,762	38,762
Total Expenditures	\$ 3,509,831	\$ 5,101,548	\$ 2,354,951	\$ 10,966,330



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

February 3, 2006

Board of County Road Commissioners
Newaygo County
935 One Mile Road
White Cloud, Michigan 49849

RE: Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of Newaygo County Road Commission, a component unit of Newaygo County, as of and for the year ended September 30, 2005 and have issued our report thereon dated February 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Newaygo County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Newaygo County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Comments and Recommendations as item 03-1, 03-2, 04-1, and 05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being auditing may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Newaygo County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. However, we did note an instance of noncompliance described in the accompanying Comments and Recommendations as item 04-2.

This report is intended solely for the information and use of the management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

NEWAYGO COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS

Although our study and evaluation of the internal control structure disclosed no condition that we believe to be a material weakness, our audit disclosed certain other reportable conditions which we wish to point out for consideration by the management of the Newaygo County Road Commission.

Accounts Payable--Reconcilement of Distribution Control Accounts to Subsidiary Records

Finding 03-1

Condition: Prior to audit adjustments, the control accounts for accounts payable in the year end distribution report did not agree with subsidiary records and reports by \$390,653.

Criteria: Subsidiary records should reconcile to control accounts. Specifically: Accounts Payable should agree with Open Invoice Reports.

Recommendation: We recommend that, prior to closing the books at year end, responsible Road Commission personnel compare relevant subsidiary records and reports to the distribution report to assure that the balances in all the above described control accounts agree with the totals of the supporting records and reports.

Improper Recording of Federal Awards

Finding 03-2

Condition: The Road Commission is currently recording all Federal Grants from the Michigan Department of Transportation (MDOT) as part of the Federal Surface Transportation Program. The Road Commission is not monitoring the sources of funding whether it be Federal and/or State or the maximum amounts to be received which led to revenue reclassifications of \$138,748 and an increase of preservation of \$93,012.

Criteria: The grants issued by MDOT state the cost participation of each project providing for the sources of funding, maximum amounts, and the amount the Road Commission is responsible for.

Recommendation: We recommend that the responsible Road Commission personnel review the grant agreements to ensure the accuracy of the posting of the revenues and expenditures for the grants received from MDOT. In particular, recording of grants to the correct revenue classifications.

NEWAYGO COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER REPORTABLE CONDITIONS (Continued)

Inventory Status Reports

Finding 04-1

Condition: Prior to audit adjustments, the inventory control accounts in the year end distribution report did not agree with inventory status report totals by \$50,624.

Criteria: The Uniform Accounting Procedures Manual for Roads, states: “The inventory control should be reconciled to the subsidiary inventory listing (inventory status report or other detail) on a monthly basis.”

Recommendation: We recommend that responsible Road Commission personnel compare the inventory status report to the distribution report to assure that the balances in Account 109 - Inventory - Road Materials and Account 110 - Inventory - Equipment Parts and Materials agree with the totals of the inventory status report.

Capital Asset Records

Finding 05-1

Condition: Prior to audit adjustments, the additions to the capital asset records did not agree with the amount posted to capital outlay, depreciation was understated, an amount was charged to depletion despite the Road Commission having no depletable assets, the equipment retirements were not properly recorded, and the infrastructure listing did not agree with the balances in the Act 51 report.

Criteria: Subsidiary records should reconcile to control accounts and reflect the total costs of all capital assets purchased during the year. Additions to capital assets must equal capital outlay. Depreciation should be recorded on an annual basis until the asset is fully depreciated, sold, or otherwise disposed. When assets are sold and/or disposed, the gain or loss should be recorded along with the applicable equipment retirement amount. Finally, the additions to the infrastructure listing should agree with the amounts posted to each individual preservation account in the distribution report and on the Act 51 report.

Recommendation: We recommend that the responsible Road Commission personnel review the capital asset records to ensure the accuracy of the postings of all aspects of the capital asset records.

STATUTORY COMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

Uniform Budgeting and Accounting Act Provisions--Expenditures

Finding 04-2

Condition: As detailed in Exhibit J, expenditures in 6 of 15 activities exceeded the amended budget and expenditures exceeded the budget in total.

NEWAYGO COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

STATUTORY COMPLIANCE (Continued)

Criteria: The expenditure of funds in excess of the budget is contrary to the provisions of Section 17 of Public Act 2 of 1968, which provides, in part, as follows:

"Except as otherwise provided in Section 19, a deviation from the original general appropriations act (budget) shall not be made without amending the general appropriations act. The legislative body (board of county road commissioners) of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined."

Section 18(3) also provides, in part, that:

"...except as otherwise provided in Section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body."

Recommendation: We recommend that the Road Commission comply with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act, being Sections 141.421-141.440 of the Michigan Compiled Laws.